BUSINESS RESOURCE CENTRE

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Starting a Home Furnishings Store

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INTRODUCTION

The retail home furnishing market is one which is extremely susceptible to economic fluctuations, changing lifestyles and shifts in buying behavior. In times of economic slowdowns, consumers tend to limit major expenditures. On the other hand, since people are not moving or buying new homes, they may be remodelling their existing dwellings. Regardless, it must be underlined that the home furnishings business is extremely competitive, making it of paramount importance for anyone starting out in the business to do their planning carefully.

Industry sources indicate that the home furnishings industry is relatively stable with some growth. It is estimated that this trend will continue. However, people working in the industry feel the nature of the store will change. It is expected that two types of stores will be predominant:

1. The large full line store 15,000 to 20,000 square feet in size. The store will stock everything and be similar to a warehouse.

2. The small specialty store ranging in size from 2000 to 4000 square feet. This type of store will focus on one aspect of the home furnishings industry. (example: The Sofa Shop)

Statistics Canada states that 40% of new retail stores fail within the first 3 years of operation as a result of management problems. An owner/manager requires knowledge of inventory control, personnel management, marketing, merchandising and pricing.

In this handbook some of the key areas which the owner/manager should address prior to opening the business are reviewed. You will undoubtedly make mistakes as you manage your business: hopefully this handbook will help you to minimize those errors.

Should you require further assistance, the Department of Industry, Trade and Tourism has a broad range of services and publications available to assist small business.

This handbook should be read in conjunction with the "Retail Business Plan", "Marketing", and the "Small Business Finance Plan". These handbooks are

available at the Business Resource Centres. Phone numbers and addresses are listed at the end of this handbook.

LEGAL CONSIDERATIONS

Thought must be given to the business structure your operation will assume. Alternatives include sole proprietorship, partnership, and incorporation, each form having its distinct advantages and disadvantages. Factors influencing your decision will include the ease and cost of organization, financing, management risk, and liability and tax considerations.

As a retailer, you will be required to register your business name. As well you must obtain a provincial retail sales tax number, an employer number and register with the Workers' Compensation Board. You must also comply with other tax regulations and employer responsibilities. The Department of Industry, Trade and Tourism has produced a handbook, "Starting a Small Business in Manitoba", which provides a description of your responsibilities in areas of licensing, permits and taxes.

Furthermore, determine your insurance needs before you start the business venture. The major types of insurance to be considered are:

General Insurance - most often this type of coverage includes insurance on the assets of the business, liability insurance on premises and vehicles, fire insurance, crime and vandalism coverage, and business interruption insurance.

Life Insurance - usually this coverage is placed on the lives of owners. (Often partners will purchase life insurance on each other's life in order to ensure continuance of the business.

Workers' Compensation - this is required by Manitoba law for reimbursing employees injured on the job for any loss of wages suffered as a result of such an injury.

TYPE OF STORE

This handbook is intended to be used by entrepreneurs who are planning to start a general, full-line home furnishings store. A cursory glance through the Yellow Pages reveals that there are various types of furniture stores, and various attempts to build distinct images. Included are stores which specialize in bedroom furniture, waterbeds, unfinished furniture, wicker and rattan furniture, contemporary furniture, and so on. Some stores sell only "fine" furniture, while others call themselves "furniture warehouses". Still others do not "sell furniture", instead terming their business as "interiors".

One can see that these aberrations are all attempts to carve out a distinct image and market for the store. Some consumers would not consider walking into a furniture store which called itself a "furniture warehouse", thinking that the furniture would naturally be of a lower quality. Others would never stop at the "fine" or "high quality" store, believing that the merchandise was simply out of their price range.

As is mentioned in the Inventory Selection section of this handbook, the key to identifying and building a particular image or product line for your store is to make certain that there is a market for your particular line. It would be more difficult for a specialty store (Joe's Teak Furniture Store) to make it in Leaf Rapids than it would be in Winnipeg.

If you wish to establish a furniture store in a particular town, you will have to select a product line to fit with the available market. If you wish to establish a particular type of store, you must be careful that the location you choose has access to the type and size of market you need to sustain your operation.

LOCATION

One decision you must make is where to locate your store. Several factors should affect your choice of a location. They include:

a) competition;
b) prospective customers in the area;
c) accessibility and visibility of the location;
d) cost;
e) future trends in the community.

Too many similar stores in an area can over-saturate the market and lead to a loss of business for all. In evaluating a location, identify prospective competitors, along with their product lines and prices. Department stores present one form of competition for the independent furniture store. Your attack should be to create a special distinct image for your store, offering a 'total product' which is different from that offered by other stores nearby.

Thus, your focus might be on personalized service and professional decorating advice, which department stores may not offer. Competition can be based on such non-price variables as product offerings, location, promotions, and service (including returns, credit policy, deliveries, convenient hours, and so on).

The number and characteristics of the populaton surrounding the store are quite important, and they should dictate the product line offered. You need to know if the population in the town is increasing or decreasing, as well as characteristics such as age, income, education and buying habits of its inhabitants and those who live in surrounding areas. Consider how these characteristics might change over the next several years and how that change might impact on your business.

It is important that the location be accessible from a number of areas and that it have adequate parking facilities. The store should be clearly visible from as many vantage points as possible, not hidden or obscured from view.

Most furniture stores are located in freestanding buildings which have good parking facilities. A full line furniture store can be anywhere from 4,000 to 20,000 square feet in size. They tend to be located in the same area in order that people can comparative shop. Mall or shopping centre locations generally have two basic disadvantages:

(I) a furniture purchase is a major purchase, one that is given a relatively high degree of consideration by consumers. Very little furniture is bought on impulse, so it is not necessary that you be in a location with a high volume of pedestrian traffic. If there is high foot traffic, you may have too many browsers wandering through the store. The browsers divert salespeople's attention from the serious shoppers.

(II) the space requirements for a furniture store make it very costly to lease space in a shopping centre.

Furniture stores are sometimes located close to shopping centres, where they can take advantage of high vehicle traffic. The decision to buy is a serious one and consumers will go out of their way to furniture stores if they believe that the store has the product and price they are seeking.

A legible and unique sign is important to your store, as is an attractive window display. Customers driving by the store may be influenced by the display; they may not stop then and there to buy a piece of furniture, but when they do decide to make a purchase they will recall your display and store.

If you are considering a location which has been used by a retailer in the past, you should investigate the site's history. Any problems which have arisen in the past and which were attributable to location are likely to recur. In the same way, you should investigate government and community plans which might detract from, or add to the value of a location (rezoning, new highways, bridges, etc.).

LEASING

Having decided on a location, and assuming that you will not be constructing or purchasing your own building to house your business, drawing up a lease of occupancy for your store is the next step. The lease agreement should

clearly specify all of the liabilities and duties which are assumed by both respective parties, the lessor and the lessee. Once the lease has been drawn up, you should have it reviewed by your lawyer to ensure that your interests are protected and that all relevant aspects of occupancy have been covered. One clause that should be included in virtually all lease agreements is one which permits you, the tenant, to sublet the premises in case of business failure or business relocation. Most lease payments are made in a set monthly amount or, as it is known in the trade, a flat rental fee. The second way is to pay a percentage of the total annual gross sales. A third method which combines the flat rental fee and/or a percentage of sales is also possible. All aspects of these three types of lease payments should be explored relative to your own particular lease situation.

STARTING YOUR OWN BUSINESS:

A home furnishing store must be planned with an eye to the customers it will serve. Market analysis should determine the type of home furnishings will sell in your proposed area. Careful study must be made of the community's economic and employment conditions, population trends, age and income groups and buying patterns. Other characteristics such as size, race and even climate affect buyers' shopping tastes and habits.

While researching your proposed business you may acquire some valuable information by visiting your Chamber of Commerce. Their office collects data on population, traffic flow, local store hours, buying patterns, holidays and special events. As well, you could take this opportunity to acquaint yourself with the Chamber of Commerce to consider joining that organization. Often, in a rural area, this is an ideal way to break the ice with the local business community.

BUYING AN EXISTING OPERATION

Instead of setting up your own store, another possibility to consider is the purchase of an existing store. But before making any decisions, carefully consider the following.

1) Find out why the business is being sold. Is it due to poor management, competition, or is the area deteriorating? Identifying the reasons for the sale may prevent you from making a poor investment.

2) Carefully audit the financial records for the last number of years. Ensure yourself that there are no unregistered liens against equipment, back taxes, or pending lawsuits.

3) Try to substantiate the sales volume in the records. Visit the operation and determine whether, in fact, the recorded sales volumes could be attained by the observed traffic.

4) Determine the value of the existing inventory. A physical count should be taken to establish a fair price, taking into consideration its saleability, condition and style. As well, proper depreciation should be allowed for inventory items. Stock may have a certain book value, but if it cannot be sold, the inventory is worthless.

5) Determine what remodelling of the premises will be required before you can commence operations. You may wish to consult an interior decorator to advise you on your store layout and design.

ADVERTISING AND PROMOTION

Advertising is used to inform the public of your existence and to create interest in your outlet. There are several methods used in business to determine the optional level of expenditure or advertising. These include:

1) percentage of sales, i.e., deciding that a certain percent of the dollar value of gross sales will go towards advertising;

2) comparative parody, or spending the same amount on advertising as your competitor spends;

3) affordable method, that is, you spend "as much as you can afford";

4) objective and task method, under which you set an objective for your advertising (say, to bring annual sales to $300,000 or to capture 10% of the market in your type of furniture) and outline the tasks you must follow and the dollar amounts you must spend to ready your objective.

The last three methods may be more appropriate for an established business; the first method may be easier for a new business. Initial advertising expenditures might be as high as 3 - 6% of projected sales. In later stages, the job of advertising will be to maintain a public image for your store and to advertise special sales being held. The advertising budget may then drop to 1 1/2 - 3% of total sales.

The success of a stores advertising campaign is largely dependent upon the planning that takes place before hand. First you must decide which approach you want your ad to focus upon.

A) Product advertisements: The promotion of specific merchandise for an advertisement. Market segmentation, product benefits, factual data, popularity, pricing strategy, depth of stock, timeliness and availibility of merchandise must all be considered.

B) Institutional advertisements: The focus of the advertisement stresses services or store image. When using this approach, you must determine what is your store image and which of these various qualities you would like to focus upon. Merchandise quality, pricing policies, services, employee attitudes & store appearance are all factors that contribute to the store's total image.

There are many media sources at your disposal. Among the more important sources are television, radio, newspapers, and the Yellow Pages. Most commonly, newspaper advertising is used in the home furnishings retail market. Radio and television are only used by those outlets which are of considerable size, and only once they have become well established. Furniture stores often run their ads in the newspapers twice weekly, once in the weekend edition and once during the week. Ads appear throughout the newspaper, but it is recommended that they be placed as close to the front of the paper as possible. The more often the advertisement runs, the more effective it will be. The same advertisement can be used for a period of time, because people do not purchase furniture that often, and you will not be pursuing repeat business (except over the long cycle).

Another avenue of promotion that you might consider is direct mail. It is most effective when your customers are scattered over a wide area, and are otherwise inaccessible. In order to use this approach, you must either have

a mailing list, or distribute the mailing to all households in a given area. Direct mail can also be used for "private sales", or those which offer goods on sale to existing or former customers.

You should plan your advertising strategy 3 to 6 months in advance, establishing a budget and follow it. You should not have to make decisions about ad placement when the salesman comes knocking on your door.

Other forms of advertising you might consider include billboards, retail giveaways, and the Yellow Pages. A sign outside the store is a must, and it should be legible and unique. Remember the most effective advertising is word of mouth. A customer who is satisfied with both product and service will intensify consumer awareness and interest.

Furniture stores often have 2 or 3 store-wide sales each year. If you continually have items on sale, it may establish an image of low quality merchandise and lessen the impact of major sales. When you have sales, perhaps you could offer "room packages", a complete bedroom/living room group for some discounted price. "Loss leaders", or items on sale below cost, are sometimes used by furniture retailers to attract traffic into the store. The idea is that the customers will (a) buy other items as well as the sale item or (b) buy another higher quality item rather than the one on sale. Again you must be careful that "loss leaders" do not adversely affect your store's image, nor to lose control of the "loss leader" concept thus resulting in a negative affect on the bottom line.

CUSTOMER SERVICE

Numerous elements of your business other than the products themselves may attract customers, and entice them to return to your store. Some of the elements of your customer service may include:

(a) hours of operation - most furniture stores are open 60 hours a week. The evening and weekend hours will be the most productive in terms of sales.

(b) decorating clinics/store decorators - some stores offer professional decorating advice, either in the form of clinics or as a normal part of the purchase package.

(c) returns and complaints - you must reasonably expect that there will be some complaints, so it is important to set a return policy before commencing operations. Policies vary, but some stores offer a return only on certain major items, and only within a specified time period (30 days).

(d) delivery and installation - if you have only one outlet, it will probably not be worthwhile for you to purchase a delivery truck. Instead you should hire the services of one or two delivery firms. Often free delivery is offered only on purchases in excess of a certain amount (e.g. $300). If there are no other furniture stores in your area, you may be able to charge for delivery.

It is also advisable to maintain a service department, or arrange with a repair business, to service any appliances sold.

FINANCING — CREDIT

It is likely that many of your customers will not be able to pay cash for their purchases. Extending credit is both a customer service and a means of generating more business.

One type of credit, of course, is credit cards. You will have to pay credit card companies approximately 3 - 5% of the total sale for the priviledge of utilizing their cards. However, since payment by credit card is the equivalent of a cash payment (you can deposit the slips directly into your bank account), it is certainly to your advantage to seek the right to accept payment by credit card.

A second type of credit is installment credit, whereby the customer pays so much per month for a purchase. Some furniture stores offer such credit, selling the contracts to finance companies. By doing so, they avoid the irritance of having to collect the payments. On the other hand, they will not receive full value for the contracts, and the actions of the finance company in collecting will reflect on the furniture store. Other furniture stores "carry their own paper", or collect their own installment contracts. In some cases, very large amounts are carried by the stores in terms of their receivables. You may not have the cash resources to carry your own contracts.

DESIGN AND LAYOUT

The proper atmosphere should increase sales levels. Always remember that the customer is making a major buying decision, and therefore, has to be persuaded to buy. They may be influenced by the store decor, and if that decor is unattractive, they may associate the quality of the merchandise with the store display. The customer's perceived image associated with the desired product or service has to be incorporated into the design, setting and decor of the store.

Display begins with the sign outside the store, for a well-designed sign can be one of your most important advertisements. The sign should be legible, and it should be somewhat unique (different from other signs in the area).

Window displays can help to build your store's image. As mentioned in the location section, it is not necessary to locate on a site which has a great deal of pedestrian traffic. However, it is still important to have a good window display, to catch the attention of those driving by. If the window display is not representative of the merchandise in the store or is poorly constructed, potential customers may drive up and then not enter the store, thinking that the store does not have the type or style of furniture they are seeking.

Inside the store, remember that the floors, walls, ceiling, lighting, fixtures and layout all contribute to the decor and thus to the image of the store. The interior decor must fit with the store's image, the products being sold and the market being served.

You might consider keeping advertised specials at the back of the store, so that customers have to walk through the store past all other merchandise in order to examine the specials.

For basic home furnishings, the following methods of display are most commonly used:

Product	Method of Display
Floor Coverings	Usually only samples are shown, placed on racks or on "waterfall" displays. Area rugs are hung. Tile or linoleum is displayed on racks obtained from manufacturers.
Housewares	Displayed in bins, alcoves, on shelves or tables.
Furniture	Segregated: grouped by type (all dining sets, all living groups, all beds, etc.) Integrated: grouped by style (all furniture of given style is grouped together). Total environment (room) settings: furniture is grouped as it would be in a dwelling — thus grouped in bedrooms, living rooms, kitchens, etc. The trend in furniture retailing is toward this type of display.

INVENTORY CONTROL

An inventory control system records the flow of merchandise in and out of the store. It should provide you with the following information:

(i) the current dollar amount in inventory;
(ii) the quantity of merchandise sold each day;
(iii) which items are selling well and should be re-ordered, and in what quantities;
(iv) which items are not selling, and should have special attention to get rid of potential problems.

You cannot afford to have merchandise in the store which is not selling. You need to quickly identify those items which are selling and those which are not.

Regarding inventory levels, your basic objective is twofold: (a) to minimize lost sales because items were not on hand, and (b) to minimize inventory carrying costs (space and dollar requirements).

There are various types of stock control systems. For larger items in the store, you ought to maintain a unit stock control system. That involves keeping a record of every item in the store. The record, often simply a card, may look something like this:

Item: Loveseat	Supplier: ABC Furniture 71 Main Street
Stock No: 873	Brandon, MB

Date	Purchased	Sold	Amount	Total
Jun. 15/88	3		$180	$540
Feb. 02/88		1	$180	$360
Feb. 22/88		1	$180	$180

*Inventory amounts are always stated at cost.

You can expect your general line of furniture to "turn over" approximately 3 to 4 times per year. The turn over rate is equal to $\frac{\text{cost of goods sold}}{\text{average inventory level}}$.

You can expect housewares and smaller items to turn over at a rate of approximately 6 to 8 times per year.

You can calculate your turnover rates for various products, to judge the appropriateness of your inventory levels.

INVENTORY SELECTION

The merchandise that you select for sale in your store depends on your sales goals, the amount of capital that you have available, and the floor space in the store. The key is to have merchandise available which will sell in the market that you are serving. There is little sense in offering very specialized merchandise for sale in a market that is small. You have to be aware of the tastes in furniture in your trading area.

To investigate the customers' tastes, you might visit other furniture stores in the area. Note what items they are selling, so that you can identify the general tastes of customers in the region and also fill any noticeable gaps. You should attempt to find out what types and styles of furniture people have in their homes as well.

Your initial stock might be limited to items which you believe can be sold with a minimum of effort. You may offer only a basic selection, adding other products once your store has become established and better known.

There are several Manitoba furniture manufacturers. You should attempt to purchase as much merchandise as possible from Manitoba manufacturers, simply for the savings on freight and faster delivery. The cost of shipping furniture, because of its bulk and weight, adds tremendously to its price. Buying from local manufacturers will help to minimize those costs.

Visit furniture stores and check the labels on items to find out where they are purchased.

You may find that Manitoba manufacturers cannot serve all your needs, for such items as lamps, etc., and that you must seek suppliers elsewhere.

Some furniture stores, in order to minimize their inventory requirements, are "samples-only" stores. They display examples of merchandise offered for sale, but have no stock other than those samples. When merchandise is purchased, it is shipped directly from the manufacturers to the customer.

There are many furniture styles, including modern contemporary, English, Traditional, French Provincial, and Mediterranean. You may find that your sales are concentrated in conventional furniture styles.

A typical inventory mix for a general-line furnishings store is shown on the following page. Basically, sales volumes are highest in upholstered goods (living room sets), followed by bedroom furniture, bedding sets and miscellaneous pieces, living room pieces and dining room sets. Your inventory selection should roughly reflect this breakdown. You can expect that your higher volume periods will be October through December and March through May.

TYPICAL INVENTORY MIX OF A
GENERAL - LINE FURNISHINGS STORE

	Percentage
Living Room Upholstered	30
Living Room Dual Purpose	3
Living Room Wood Pieces	6
Dining Room	8
Bedroom	15
Bedding	5
Kitchen - Dinette	5
Summer & Casual	1
Juvenile	2
Floor Coverings	5
Draperies - Curtains	2
Radios, TV, Stereo, etc.	4
Fridge, Stove, Washer, Dryer	15
Lamps & Shades	2
Accessories, Giftwares	1
Secondhand	1
Other	4
Total Inventory	100%

Figures developed from industry sources.

You may choose to specialize in certain types or styles of furnishings, rather than offering a full line selection. For example, you could sell only beds and bedroom furniture, waterbeds, lamps, chairs, children's furniture, and so on. Before you decide to specialize, you must be certain that the size of the market warrants such an outlet. It is doubtful whether any rural towns in Manitoba have large enough populations to support a furniture specialty store. In Winnipeg, on the other hand, one finds stores which specialize in waterbeds, contempory styles, custom made furniture, wicker and rattan, unfinished furniture, teak furniture and so on.

Obviously, you will be unable to stock your store with all styles and types of furniture. As mentioned, the key is to select merchandise which will sell in your market area. That will involve some research, a little guesswork, and some common sense.

For assistance in locating suppliers, consult Appendix A which lists home furnishings associations, trade magazines and the names of trade shows, which display furniture.

PERSONNEL

Sales personnel play an important role in the consumer buying process, more so when that process involves a major purchase. Purchasing furniture is a major decision for most people, since the purchase not only involves a considerable amount of money, but also because the items purchased reflect their life-style.

Personalized service, often the independent retailer's greatest marketing advantage, is the most commonly cited reason for continued patronage of a store. Since the people who work for you play such a large part in determining your success or failure, prospective employees should be screened carefully and trained thoroughly.

The number of personnel you will require will depend on the size of the store, how much work you will do, and so on. If you have little or no experience in selling (furniture), you might consider hiring a sales manager

to look after purchasing, store layout, pricing, and hiring other sales personnel. On the other hand, you may be able to fulfill the sales manager's function yourself.

You will prefer that any salespeople be experienced in selling furniture. At the least, they should be well acquainted with the products on sale in the store. Since salespeople are an important influence, they must show their interest and they must inspire confidence in the customers.

There are many different methods of compensating your staff, including straight wages, straight commission, a combination of wages and commission, and a guaranteed draw against a commission. The latter guarantees salespeople a certain draw, to be covered by commissions earned. Commissions paid are commonly in the 15% area. You may find that you try more than one compensation method before you find one that satisfies you and your staff.

FINANCIAL PLANNING

When small businesses fail, they often do so because their owners did not foresee that they would encounter difficult financial circumstances. Proper financial planning can make you aware of possible critical problems before they arise, so that you can take the appropriate action to avoid them. Small businesses often suffer from inadequate financing, and though financial planning may not alleviate that problem, it should enable the entrepreneur to realize the need for additional financing before a crisis arises.

A detailed outline of financial planning is contained in companion volumes in this series: "Service Business Plan", and the "Retail Business Plan". The purpose of this section is to underscore the importance of sound financial planning, by summarizing the basics of the process.

The steps of financial planning include:

1. Determine the cost of premises, equipment and fixtures;
2. Estimate all operating, direct (cost of materials, etc.) and indirect (interest, rent, etc.) expenses;

3. Estimate working capital or cash flow requirements, and the sales volume needed to meet those requirements;

4. Prepare projected statements: cash flow, profit and loss, and balance sheet.

FINANCIAL RECORDS

Decisions made are only as good as the information upon which they are based. Proper records should be kept so that information about the financial status of the business is available. The information can tell you if any problems are being or are likely to be encountered. Problems such as a sales volume lower than forecast, delinquent accounts receivable, inventories not moving, or profit margins which are too low, may be brought to your attention. The constant monitoring of the business' financial situation can be achieved only if thorough records are kept. You, as a business person, have to know if things are proceeding according to plan. If they are not, you can take remedial action before it is too late.

It is not difficult to maintain a simple record keeping system sufficient for the needs of most small businesses. The exact requirements vary, depending on the volume of business, the number of customers and suppliers, the number of employees, whether or not credit is allowed to customers, and so on. Some of the records you may need include:

1. cash receipts journal used to record all payments made to the business;

2. cash disbursements journal used to record all payments made by the business;

3. accounts receivable ledger used to keep a record of all amounts owed by customers;

4. general ledger used to keep a record of all accounts on the balance sheet.

As well, you may need a sales journal (recording all sales made on credit), a purchases journal (recording inventory purchases made on credit), an accounts payable journal (to record wages paid). You should, of course, make all payments by cheque, not by cash, and maintain an accurate cheque book.

Remember that the system you use has to provide information that is useful to you in making decisions about the business. Having an accountant prepare annual statements (which you may have difficulty interpreting in a useful manner) is not enough. You have to understand the records system and the information that it provides in order for it to be a part of your financial planning process.

The information contained in your records can be thoroughly analyzed to provide more clues about what exactly is happening to your business. You can, for example, compare your financial status to that of other similar businesses. Various publications contain statistics on key financial ratios for a wide range of retail businesses. These ratios include, for example, current assets to current liabilities, gross profit to sales, net profit to sales, and so on. A profit and loss statement for the average full-line furniture business, expressed in ratio form, is shown in Appendix B. Comparing your statement to the sample could point out possible problems. If, for example, your cost of goods sold is 80% (vs. 55% - 60%), could be an indication of problems that have to be rectified. It should be remembered, of course, that the ratios in Appendix B are for the average full-line furniture business and there are variations depending on the exact type of product you are selling.

You are required by law to provide statements to the taxation authorities but a more important purpose of keeping financial records is to enable you to monitor the progress of your business.

PRICING

A short note on pricing may be relevant at this point. Pricing your goods properly is an integral element of your planning, both financial and marketing. A discussion of pricing policy is contained in another volume of this series entitled "Marketing". It is worthwhile, however, to explain briefly the mechanics of pricing in the context of general financial planning.

Retailers generally establish the selling prices of their goods by increasing the cost of the merchandise according to some established formula.

Your retail price should allow sufficient gross profit (the difference between the price of your item and the cost of your item) to cover your overhead expenses (heat, light, taxes, insurance, etc.) and a reasonable net profit. It should also be remembered that ultimately the sale price to the consumer will be governed by competitive forces and pricing points as determined by the consumer.

Basically, there are two commonly used methods to determine the difference between your selling price and your cost price. Both will yield the same profit. Examples showing an entrepreneur setting a $500 price for an item that costs $300 are presented below.

1. Mark up is based on your cost.

$$\text{Mark up} = \frac{\text{Selling price - cost price}}{\text{cost price}} \qquad \frac{500 - 300}{300} = 66\ 2/3 \text{ Mark up.}$$

2. Margin is based on your selling price.

$$\text{Margin} = \frac{\text{Selling price - cost price}}{\text{selling price}} \qquad \frac{500 - 300}{500} = 40\% \text{ Margin.}$$

Although the methods above show different percentages, the amount of gross profit in each case is the same ($200). Traditionally, home furnishings have had mark ups of 80 - 100% or margins of 55 - 60%.

The most important aspect is that you choose one method to calculate your price and that you understand how the parts of it are used.

SUMMARY

Planning will not ensure the success of your enterprise, but it certainly will improve your chances. Remember, too, that if your analysis predicts that the business will not be profitable, do not ignore that analysis and plunge ahead. Do not take starting the business as a foregone conclusion. Financial planning is one part of your business plan, the elements of which bear repeating. The time you take before starting your business and while

it is underway to plan and to monitor those plans could be your most important investment. Failure to do so would be to start off down the highway without a road map, not knowing how to get to where you want to go.

1. State your goals and objectives;
2. Determine the potential market for your products;
3. Evaluate the location (new and existing);
4. Decide on the store interior and exterior layout;
5. List sources of supply, terms, and an inventory of requirements;
6. Provide for handling incoming merchandise (receiving, checking, marking, and the movement of goods);
7. Decide upon a general pricing policy and pricing strategy to be used to stimulate profitable sales volume;
8. Outline your promotional policies and strategies;
9. Develop management policies and practices for handling store personnel, inventory control, and sales management;
10. Conduct a complete financial analysis of the business:
    - determine capital cost expenditure,
    - determine operating costs,
    - develop financial information for sourcing of funds and control;
11. Establish an expense control system (accounting procedures), cash flow system, and a budget.

If you would like to discuss your Business Plan or have problems and questions related to its preparation, feel free to call the Centre and arrange to meet with one of the counsellors.

Department of Industry, Trade and Tourism
Business Resource Centre
6th Floor, 155 Carlton
Winnipeg, Manitoba
R3C 3H8.

Phone: 945-7738
Toll Free in Manitoba 1-800-262-8069

Brandon Business Resource Centre
P.O. Box 1300, 231 - 10th Street
Brandon, Manitoba
R7A 6N1

Phone: 726-6250

APPENDICES

Appendix A: Associations & Shows

Appendix B: Operating Expense Ratios

Appendix C: Sales Per Selling Area by Kind of Business & Region

Appendix D: Expenditures by City

Appendix E: Small Business Profiles

Appendix A:

Associations

Furniture West Inc.
1873 Inkster Blvd.
Winnipeg, Manitoba
Phone: 632-5529

Canadian Council of Furniture Manufacturers
37 Elysee
Place Bonaventure
Montreal, Quebec
H5A 1E9

National Home Furnishings Association
405 Merchandise Mart Plaza
Chicago, Illinois 60654

The Canadian Carpet Institute
1080 Beaver Hall Hill
Room 1002
Montreal, Quebec
H2Z 1T6

Canadian Interiors Association
Suite 807
67 Yonge Street
Toronto, Ontario
M5E 1J8

Shows

DecorAction Summer Regional Furniture Market
International Centre
6900 Airport Road
Mississauga, Ontario
L4V 1E8

Montreal Furniture Market (and Toronto Furniture Market)
1 Eiffel
Place Bonaventure
Montreal, Quebec
H5A 1E9
Phone: (514) 866-3631 Renee Dufresne, Director

Western Floor Covering Market
B.C. Floor Association
2675 Oak Street
Vancouver, B.C.
V6H 2K3
Phone: (604) 736-6311

Appendix A (cont'd)

Note: Dates for Canadian Industry Shows & Exhibitions can be accessed at most business libraries.

B.C. Home Show
Sponsor: Greater Vancouver Home Builders Association
Established: 1984
Type of Show: Public (Cl. 32)
Location & Dates: Vancouver, B.C.,
B.C. Place Stadium

Better Living Show
Established: 1981
Type of Show: Public (Cl. 32)
Location & Dates: Victoria, B.C.,
Juan de Fuca Rec. Centre

Fall B.C. Home Show
Established: 1987
Type of Show: Public (Cl. 32)
Location & Dates: Vancouver, B.C.,
B.C. Place Stadium

Publications

Furniture and Furnishings
Page Publicatons Ltd.
380 Wellington Street, W.
Toronto, Ontario
M5V 1E3
Phone: (416) 746-7360

Furniture Production & Design
Sentinel Communications Inc.
Ste. 200, 6725 Darlington Avenue
Montreal, Quebec
H3S 2J7
Phone: (514) 731-3523

Home Goods Retailing ($28.00)
MacLean Hunter Publishing
777 Bay Street
Toronto, Ontario
M5W 1A7
Phone: (416) 596-5523

Canadian Furniture Magazine
Victor Publishing Co. Ltd.
7777 Keele Street
Concord, Ontario
L4K 1Y6
Phone: (416) 669-6606

Appendix B

OPERATING EXPENSE RATIOS FOR A RETAIL FURNITURE AND APPLIANCES

Annual Gross Sales: Up to $500,000.

SALES	100%
COST OF SALES	65.0 - 71.0%
GROSS PROFIT	29.0 - 35.0%
EXPENSES	
Administrative	4.0 - 7.0%
Occupancy (Store and Warehouse)	2.0 - 3.0%
Salaries & Wages	10.0 - 12.0%
Advertising	3.0 - 6.0%
Delivery	3.0 - 4.0%
Bad Debts	1.0 - 1.0%
Miscellaneous	1.0 - 1.0%
TOTAL EXPENSES	30.0 - 34.0%
NET INCOME (before taxes)	5.0 - 1.0%

Data not additive vertically; ranges are intended for guideline purposes only. Figures developed by Small Business Reporter.

APPENDIX C.

TABLE A. Analysis of Sales Per Selling Area by Kind of Business and Region, Ranked by Sales Per Square Foot of Selling Area -

Region, Quartiles and Weighted Averages / Region, Quartiles et moyennes pondérées	Sales - Ventes: Lower Quartile Values / Valeur minimum du quartile		Average Annual Sales	Selling Area Average / Superficie moyenne de vente		Type of Store Location / Genre d'emplacement				
	Square Foot / Pieds carrés	Square Metre / Mètres carrés	$ 000'S / Ventes annuelles moyennes	Square Feet / Pieds carrés	Square Metres / Mètres carrés	On Street / Sur rue	Shopping Centre / Centre Commercial: Neighbourhood / de quartier	Community / Communautaire	Regional / Régional	Indoor Mall / Mail intérieur
	$	$				%	%	%	%	%
	Floors, Curtains, & Interior Decorators / Revêtement de sol, rideaux, décorateur intérieur									
Canada										
Top 25% Supérieur 25%.....	257	2.766	409	999	92	90	8	-	-	2
Upper Middle 25% Intermediaire superieur 25%	158	1.679	385	1,953	180	66	28	1	4	1
Lower Middle 25% Intermediaire inférieur 25%	107	1.152	350	2,795	257	95	5	-	-	-
Bottom 25% Inférieur 25%.....			243	3.151	290	87	6	2	2	3
Average Moyenne			**340**	**2.233**	**206**	**84**	**12**	**1**	**1**	**2**
Manitoba										
Top 25% Superieur 25%.....	567	6.103	724	1,250	115	100	-	-	-	-
Upper Middle 25% Intermediaire superieur 25%	193	2.077	490	2,000	184	67	-	-	-	33
Lower Middle 25% Intermediaire inférieur 25%	154	1,658	684	4,424	407	100	-	-	-	-
Bottom 25% Inférieur 25%.....			359	2,739	252	64	36	-	-	-
Average Moyenne			544	2,587	238	80	11	-	-	9

Appendix IV. Sample and store count by kind of business & region

Sample and store count by region / Nombre dans l'echantillion et nombre de magasins selon la region	Number in sample / Nbre dans l'echantillion	Number of independent stores / Nbre de magasins independants	
	Canada		Manitoba
Furniture stores	134	931	14
Household appliances stores	67	506	7
Television sales & services stores	43	345	1
Furniture, radio, television and appliance	62	421	4
Television, radio and sterio	132	985	18
Television and radio repair shops	74	687	8
Floors, curtains, & interior decorators	137	1,137	10

Source: Statistics Canada Catalogue # 61-522 - 1986.

APPENDIX D

TABLE 5. Summary and Selective Detailed Family Expenditure by City, Canada, 1986 - Continued

All Families and Unattached Individuals

		Prairie Provinces - Provinces des Prairies											
		Winnipeg		Regina		Saskatoon		Calgary		Edmonton		Other cities 30 000 + / Autres villes de 30 000 +	
		Av per fam / Moy par fam	% rptg / % décl	Av per fam / Moy par fam	% rptg / % décl	Av per fam / Moy par fam	% rptg / % décl	Av per fam / Moy par fam	% rptg / % décl	Av per fam / Moy par fam	% rptg / % décl	Av per fam / Moy par fam	% rptg / % décl
2380-2498	Household furnishings and equipment	1160	95.3	1195	98.1	1387	94.8	1338	96.7	1245	95.8	1284	94.4
2380-2344	Household furnishings	604	81.8	578	87.7	803	82.3	595	83.9	635	84.7	599	81.1
2300-2318	Furniture	374	52.7	385	56.1	462	50.4	439	59.4	406	54.2	362	48.3
2320-2329	Household textiles & related materials	139	67.5	137	74.7	140	68.8	161	73.4	148	75.9	144	70.9
2360-2483	Household equipment	481	91.7	541	96.5	535	88.0	573	93.7	538	91.5	621	90.8
2360-2403	Household appliances	234	64.7	291	85.0	227	57.0	256	63.0	236	64.4	301	64.0
2490-2498	Services related to furnishings & equipment	76	53.2	76	63.3	48	47.4	68	50.8	73	50.6	64	47.9

TABLE 4. Summary and Selective Detailed Family Expenditure by Region and Province, Canada, 10 Provinces, 1986 - Continued

All Families and Unattached Individuals

		Region and province - Région et la province											
		Ontario		Prairie provinces / Provinces des Prairies		Manitoba		Saskatchewan		Alberta		British Columbia / Colombie-Britannique	
		Av. per fam. / Moy. par fam.	% rptg. / % décl.	Av. per fam. / Moy. par fam.	% rptg. / % décl.	Av. per fam. / Moy. par fam.	% rptg. / % décl.	Av. per fam. / Moy. par fam.	% rptg. / % décl.	Av. per fam. / Moy. par fam.	% rptg. / % décl.	Av. per fam. / Moy. par fam.	% rptg. / % décl.
2380-2498	Household furnishings and equipment	1397	95.0	1248	95.8	1157	96.0	1237	95.2	1293	95.9	1192	93.2
2300-2344	Household furnishings	706	83.1	600	83.2	557	80.5	581	84.8	629	83.8	607	79.2
2300-2318	Furniture	437	51.6	372	51.7	350	50.1	348	49.8	393	53.3	360	47.0
2320-2329	Household textiles & related materials	162	73.1	142	72.7	129	67.5	152	75.0	145	74.1	162	67.1
2360-2483	Household equipment	612	91.8	583	92.6	532	92.7	599	91.7	599	92.9	525	90.2
2360-2403	Household appliances	295	64.2	285	63.7	261	63.6	283	61.6	259	64.6	261	61.6
2490-2498	Services related to furnishings & equipment	79	57.1	64	49.9	68	49.2	57	48.9	85	50.6	60	49.3

Source; Statistics Canada Catalogue # 62-555 - 1986

APPENDIX E

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TABLE 1. Selected operating ratios, in percent of sales, 1987

Manitoba, Household Furniture Industries (SIC 281)

	Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample: No.	17				
Low sales value $000's	1	--	--	--	--
High sales value $000's	1	--	--	--	--

Selected expense item	Industry average[2]					% businesses reporting	Reporting businesses only[3]				
	Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%		Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
	Percent of sales						Percent of sales				
Cost of sales	54.2	--	--	--	--	100.0	54.2	--	--	--	--
Occupancy expenses	11.2	--	--	--	--	100.0	11.2	--	--	--	--
Depreciation	8.0	--	--	--	--	92.4	8.7	--	--	--	--
Repairs & maintenance	0.4	--	--	--	--	35.0	1.3	--	--	--	--
Heat, light & telephone	1.9	--	--	--	--	100.0	1.9	--	--	--	--
Rent	0.8	--	--	--	--	29.7	2.8	--	--	--	--
Personnel expenses	15.1	--	--	--	--	50.4	29.9	--	--	--	--
Financial expenses	4.6	--	--	--	--	100.0	4.6	--	--	--	--
Interest & bank charges	3.7	--	--	--	--	97.4	3.8	--	--	--	--
Professional fees	0.9	--	--	--	--	95.1	1.0	--	--	--	--
Other expenses	12.4	--	--	--	--	100.0	12.4	--	--	--	--
Profit (loss)	2.5	--	--	--	--	100.0	2.5	--	--	--	--
Total	100.0	--	--	--	--	100.0	...	--	--	--	--

Symbols
- \- zero or no observations
- -- too small too be expressed
- ... not applicable
- x confidential

Footnotes
(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

(2) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of all businesses in the sample}} \times 100$ for each quartile.

(3) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of businesses reporting this item of expenditure}} \times 100$ for each quartile.

This portion of the table pertains only to the businesses reporting the specific expense item. Therefore these ratios are calculated individually and the total will not necessarily equal 100%.

Notes
Data are shown by quartiles when at least 13 of the sampled businesses report the specific item.

Records were ranked in ascending order according to sales size. Each quartile (i.e. bottom 25%, lower middle 25%, etc.) represents one quarter of the total number of businesses. Within each quartile, the average ratio is presented. For comparison purposes, the high and low values of sales are shown.

How to use the tables
(1) Locate the appropriate sales range that is displayed on the two lines entitled "Low sales value" and "High sales value"
(2) The selected range will indicate the proper quartile, i.e. the bottom 25%, the lower middle 25%, the upper middle 25% or the top 25%.
(3) Data pertaining to the selected sales size range will be in that quartile.

Standard Industrial Classification Definition (SIC 1980):

SIC 2810 - Household Furniture Industries
Businesses primarily engaged in manufacturing household furniture, of all kinds and of all materials.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

TABLE 2. Balance sheet profile for incorporated businesses only, 1987

Manitoba, Household Furniture Industries (SIC 281)

	Total(1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	13				
Low sales value ($000's)	(1)	--	--	--	--
High sales value ($000's)	(1)	--	--	--	--
		Average $000's			
Assets					
Cash	-	--	--	--	--
Accounts and notes receivable	125	--	--	--	--
Inventory	-	--	--	--	--
Other current assets	196	--	--	--	--
Total current assets	393	--	--	--	--
Fixed assets	158	--	--	--	--
Less: Accum. dep. on fixed assets	-	--	--	--	--
Other assets	20	--	--	--	--
Total assets	471	--	--	--	--
Liabilities and equity					
Current loans	73	--	--	--	--
Other current liabilities	138	--	--	--	--
Total current liabilities	211	--	--	--	--
Mortgages payable	-	--	--	--	--
Long term debt	-	--	--	--	--
Other liabilities	225	--	--	--	--
Total liabilities	437	--	--	--	--
Total equity	34	--	--	--	--

(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes.

TABLE 3. Financial ratios(1) for incorporated businesses only, 1987

Manitoba, Household Furniture Industries (SIC 281)

	Total(2)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	13				
Low sales value ($000's)	(1)	--	--	--	--
High sales value ($000's)	(1)	--	--	--	--
		Average			
Liquidity ratio					
Current ratio (times)	1.4	--	--	--	--
Leverage ratios					
Debt/equity ratio (times)	12.9	--	--	--	--
Interest coverage ratio (times)	2.3	--	--	--	--
Debt ratio (times)	0.9	--	--	--	--

(1) The ratios represent the average of ratios for each business in the group and cannot be calculated from the figures shown in Table 2.

(2) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes.

Definitions:

1. Liquidity ratio:

   Current = current assets / current liabilities.

2. Leverage ratios:

   a) Debt/equity = total liabilities / equity
   b) Debt ratio = total liabilities / total assets.
   c) Interest coverage = net profit + interest expense / interest expense

SOURCE. Small Business and Special Surveys Division, Statistics Canada.

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TABLE 4. Statement of changes in financial position for incorporated businesses only, 1987

Manitoba, Household Furniture Industries (SIC 281)

	Total (1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	8				
Low sales value ($000's)	.	--	--	--	--
High sales value ($000's)	.	--	--	--	--
			Average $000's		
Operating activities					
Cash from operations	..	--	--	--	--
Depreciation	--	--	--	--	--
Other	-39	--	--	--	--
Dividends	-1	--	--	--	--
Investment activities					
Disposal of fixed assets	24	--	--	--	--
Purchase of fixed assets	-42	--	--	--	--
Increase in investment	-44	--	--	--	--
Decrease in investment	-	--	--	--	--
Financing activities					
Increase in long term debt	-	--	--	--	--
Repayment of long term debt	-34	--	--	--	--
Loans from shareholders	26	--	--	--	--
Repayment of loans from shareholders	-8	--	--	--	--
Advances & loans from government	4	--	--	--	--
Increase in equity	50	--	--	--	--
Decrease in equity	-1	--	--	--	--
Other	-	--	--	--	--
Increase(decrease) in cash & equivalents	-1	--	--	--	--
Cash & equivalents-Beginning of the year	-73	--	--	--	--
Cash & equivalents - End of the year	-74	--	--	--	--

(1) These estimates are based on a sample of incorporated businesses reporting sales between $25,000 and $2,000,000. Sample count includes only those businesses reporting a statement of changes.

See Table 1 for symbols and notes.

TABLE 5. Employment changes by size of business, 1984-1987 based on SIC classification in 1987

Manitoba, Household Furniture Industries (SIC 281)

Business size expressed in average labour units(1)	Number of businesses	Total payroll ($000's)	Average labour units(1)	Changes in number of businesses with paid employees: Newly reporting(2)	Changes in number of businesses with paid employees: No longer reporting(3)
1984					
Total	49	18,941	1,127	11	4
less than 20	37	2,294	136	9	4
20 - 99	9	5,242	312	1	-
100 - 499	2	X	19	1	-
500 and over	1	X	660	-	-
1987					
Total	50	28,098	1,593	13	...
less than 20	35	2,588	147	10	...
20 - 99	10	6,575	372	1	...
100 - 499	1	X	38	-	...
500 and over	4	X	1,036	2	...

(1) Average labour units are calculated by dividing total payroll by the average annual wage and salary rate as reported in the Survey of Employment, Payroll and Hours, Statistics Canada, Catalogue 72-002. An average labour unit could be interpreted as a full-time employee. Note that the business size groups used are determined at the Canada level. Thus if a business has at least 500 employees in Canada as a whole but less than that number in any given province it is shown in the 500 and over group.

(2) Refers to businesses reporting no payroll deductions in the previous year.

(3) Refers to businesses reporting no payroll deductions in the following year.

"Newly reporting" and "no longer reporting" businesses are assumed to have been in activity for six months and the information is adjusted accordingly.

See Table 1 for symbols and notes.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

TABLE 6. Selected operating characteristics of small businesses by sales quartile, 1985-1987

Manitoba, Household Furniture Industries (SIC 261)

	Total [1]	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
			1985		
Number of observations in sample	14				
Average sales $	[illegible]	--	--	--	--
Average expense $	39.431	--	--	--	--
Average net profit (loss) $	8.031	--	--	--	--
Businesses reporting a profit (No.)	11				
Average sales $	97.001	--	--	--	--
Average expense $	85.497	--	--	--	--
Average net profit $	[illegible].504	--	--	--	--
Businesses reporting a loss (No.)	3				
Average sales $	278.831	--	--	--	--
Average expense $	313.815	--	--	--	--
Average net loss $	-35.184	--	--	--	--
			1986		
Number of observations in sample	21				
Average sales $	296.117	--	--	--	--
Average expense $	291.557	--	--	--	--
Average net profit (loss) $	4.560	--	--	--	--
Businesses reporting a profit (No.)	15				
Average sales $	192.503	--	--	--	--
Average expense $	181.604	--	--	--	--
Average net profit $	10.899	--	--	--	--
Businesses reporting a loss (No.)	6				
Average sales $	832.873	--	--	--	--
Average expense $	876.450	--	--	--	--
Average net loss $	-43.577	--	--	--	--
			1987		
Number of observations in sample	22				
Average sales $	387.270	--	--	--	--
Average expense $	381.401	--	--	--	--
Average net profit (loss) $	5.869	--	--	--	--
Businesses reporting a profit (No.)	17				
Average sales $	533.671	--	--	--	--
Average expense $	510.222	--	--	--	--
Average net profit $	23.449	--	--	--	--
Businesses reporting a loss (No.)	5				
Average sales $	271.593	--	--	--	--
Average expense $	311.536	--	--	--	--
Average net loss $	-39.943	--	--	--	--

(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes

SOURCE: Small Business and Special Surveys Division, Statistics Canada.